

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 EURE-00 AID-05 CIAE-00
COME-00 EB-08 FRB-01 INR-07 NSAE-00 TRSE-00
XMB-04 OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 SS-15
STR-04 CEA-01 DODE-00 PM-05 H-02 L-03 PA-02
PRS-01 NSCE-00 SSO-00 USIE-00 INRE-00 IO-14
AGRE-00 /111 W

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FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC IMMEDIATE 1503

INFO AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HAGUE

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: SWEDISH GOVERNMENT PRESENTS ECONOMIC STABILIZATION PROGRAM AT

PRESS CONFERENCE ON AUGUST 29

REF: A) STOCKHOLM 3603, B) STOCKHOLM 3446

1. AT A PRESS CONFERENCE ON THE MORNING OF AUGUST 29, THE SWEDISH GOVERNMENT PRESENTED THE OUTLINE OF AN ECONOMIC STABILIZATION PROGRAM POPULARLY REFERRED TO BY THE PRESS AND OTHER MASS MEDIA AS THE ECONOMIC CRISIS PACKAGE (REFTEL B). THE MAIN POINTS OF THE PROGRAM, INCLUDING A TEN PERCENT DEVALUATION OF THE KRONA AND SWEDEN'S LEAVING THE JOINT EUROPEAN MONETARY FLOAT OR SO-CALLED SNAKE, WERE MENTIONED IN REFTEL A.

2. THE SUDDEN PRESENTATION OF THE PROGRAM CAN BE ATTRIBUTED TO THE GOVERNMENT'S DETERMINATION TO STEM A LARGE AND CONTINUING OUTFLOW OF SWEDEN'S FOREIGN EXCHANGE RESERVES CAUSED MAINLY BY WIDESPREAD SPECULATION ON A FORTHCOMING DEVALUATION OF THE KRONA. ACCORDING TO SWEDISH RKS BANK GOVERNOR CARL-HENRIK NORDLANDER, SWEDEN'S FOREIGN EXCHANGE RESERVES TODAY TOTAL ABOUT 11.1 BILLION KRONOR. A SMALL INFLOW OF FOREIGN EXCHANGE OCCURRED AFTER THE PREVIOUS SIX PERCENT DEVALUATION ON APRIL 1, 1977, BUT DURING THE PERIOD JUNE THROUGH AUGUST, THERE WAS A DISTURBING OUTFLOW OF MORE THAN THREE BILLION KRONOR. THE NET OUTFLOW WOULD HAVE BEEN EVEN LARGER HAD IT NOT BEEN FOR THE FACT THAT SOME FOREIGN EXCHANGE HAD COME INTO SWEDEN IN THE FORM OF SWEDISH BORROWINGS ABROAD.
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3. THE ECONOMIC STABILIZATION PROGRAM PRESENTED YESTERDAY (AUGUST 29) CONTAINED, AMONG OTHER THINGS, A PACKAGE OF 8 MEASURES, SOME OF WHICH ARE GENERALLY REGARDED AS RATHER DRASTIC FOR SWEDEN, PARTICULARLY BY THE COALITION GOVERNMENT'S POLITICAL OPPONENTS. INDUSTRY REPRESENTATIVES, HOWEVER, CONSIDER THE PACKAGE TO BE A NECESSARY REMEDY TO RESTORE THE COMPETITIVENESS OF SWEDISH EXPORTS AND TO PUT SWEDEN'S ECONOMY BACK ON A SOUND FOOTING. THE 8 MEASURES OF THE PACKAGE ARE AS FOLLOWS:

A) A TEN PERCENT DEVALUATION OF THE SWEDISH KRONA IN RELATION TO A "BASKET" OF 15 FOREIGN CURRENCIES (SEE REFTEL A). AT THE SAME TIME SWEDEN LEAVES THE JOINT EUROPEAN MONETARY FLOAT OR SO-CALLED SNAKE.

B) THE CURRENT FOUR PERCENT PAYROLL TAX LEVIED ON EMPLOYERS WILL BE REDUCED TO TWO PERCENT AS OF JANUARY 1, 1978. THIS TAX HAS, IN RECENT YEARS, BEEN ONE OF THE CONTRIBUTORY CAUSES OF THE SWEDISH INDUSTRY'S MUCH-DEBATED COST CRISIS.

C) THE GOVERNMENT WILL IMMEDIATELY SUMMON REPRESENTATIVES OF LABOR AND MANAGEMENT FOR DISCUSSIONS ON SWEDEN'S

ECONOMIC PROBLEMS. THESE DISCUSSIONS WILL BE DIRECTED TOWARD DEVISING WAYS AND MEANS OF COMBATING INFLATION WHILE ENSURING FULL EMPLOYMENT. THE GOVERNMENT IS ALSO PREPARED TO TAKE UP THE MATTER OF INCOME TAXES FOR THE 1978 CALENDAR YEAR, AS WELL AS THE QUESTION OF INDIRECT TAXATION AND THE AIMS AND FORMULATION OF SWEDEN'S ECONOMIC POLICY IN GENERAL.

D) A GENERAL PRICE FREEZE WILL BE IMPOSED IMMEDIATELY AND REMAIN IN EFFECT UNTIL OCTOBER 31, 1977. PRICES WILL BE FROZEN AT THE LEVEL WHICH PREVAILED ON AUGUST 26, 1977. THE AIM OF THE FREEZE IS TO PREVENT PRICES ON THE DOMESTIC MARKET FROM BECOMING INFLATED AS A RESULT OF THE CHANGED EXCHANGE RATE FOR THE KRONA. THE FREEZE IS ALSO DESIGNED TO INCREASE THE COMPETI-
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TIVENESS OF SWEDISH PRODUCTS IN RELATION TO IMPORTED GOODS. WHEN LIFTED AT THE END OF OCTOBER, THE FREEZE WILL BE REPLACED BY A SYSTEM OF INTENSIVE PRICE SURVEILLANCE.

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E) IN ORDER FOR THE SWEDISH CURRENCY DEVALUATION TO HAVE THE INTENDED EFFECT, DOMESTIC CONSUMPTION WILL BE RESTRAINED, PUBLIC EXPENDITURE WILL BE HELD BACK, AND REFORMS THAT MAY APPEAR URGENT WILL BE DEFERRED UNTIL SUCH TIME AS THE ECONOMIC CONDITIONS WOULD PERMIT THEIR IMPLEMENTATION. FURTHERMORE THE GOVERNMENT, THROUGH VARIOUS SUPPORT MEASURES, WILL SEEK TO LIGHTEN THE BURDEN INHERENT IN THE CRISES WITH WHICH SWEDISH INDUSTRIAL FIRMS ARE NOW CONFRONTED AND MAKE IT EASIER FOR THEM TO CARRY OUT NEW INVESTMENT SCHEMES.

F) ECONOMIC POLICY WILL BE SHAPED SO AS TO SHIFT NATIONAL RESOURCES FROM THE CONSUMPTION TO THE PRODUCTION SECTOR. AS A MOVE IN THAT POLICY, THE GOVERNMENT WILL ENCOURAGE AN INCREASE IN HOUSEHOLD SAVINGS. A SPECIAL COMMISSION IS ALREADY WORKING ON THE PROBLEM. ACCORDING TO ITS DIRECTIVES, THE COMMISSION SHOULD GIVE CONSIDERATION TO DEVISING A SYSTEM OF EXPANDED SALARY SAVINGS UNDER WHICH SUCH SAVINGS WOULD BE INVESTED, ON A LONG-TERM BASIS, IN THE EMPLOYEES' OWN COMPANIES OR IN SOME CAPITAL MARKET INSTITUTION. SUCH SAVINGS SHOULD YIELD A RETURN AND AS FAR AS POSSIBLE BE GUARANTEED AGAINST LOSS.

G) IN GENERAL, COMPANIES IN SWEDEN WILL BE RECORDING POOR RESULTS FOR 1977, WHICH MEANS THAT THE OWNERS OF CAPITAL WILL ALSO BE ASSUMING THEIR SHARE OF THE BURDEN IMPOSED BY THE CURRENT ECONOMIC PROBLEMS. THEREFORE, THERE WILL BE A FREEZE ON DIVIDEND PAYMENTS IN 1978. THE ECONOMIC RECOVERY THAT MAY BE EXPECTED

AS A RESULT OF THIS STABILIZATION PROGRAM MUST BE
TAKEN ADVANTAGE OF FOR COMPANY CONSOLIDATION. THE
GOVERNMENT, THEREFORE, WILL SEE THAT DIVIDEND PAYMENTS
IN BOTH 1978 AND 1979 ARE KEPT WITHIN THE BOUNDS OF
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THE RESTRAINTS IMPOSED ON ALL GROUPS OF SWEDISH SOCIETY,
AND IT WILL CLOSELY FOLLOW DEVELOPMENTS IN THIS SPHERE.

H) A GENERAL AND UNBIASED MAPPING OF THE PROBLEMS
CONFRONTING SWEDISH INDUSTRY AND AN ANALYSIS OF ITS
TECHNOLOGICAL AND INDUSTRIAL STRUCTURE IN COMPARISON
WITH THAT OF THE WORLD ABOUT IT WILL BE CARRIED OUT.
A STUDY OF INDUSTRY'S SENSITIVITY TO CHANGES IN THE
BUSINESS CYCLE AND ITS POSSIBILITY IN THE LONG RUN OF
COMPETING INTERNATIONALLY IS ALSO A MATTER THAT WILL
BE GIVEN IMMEDIATE CONSIDERATION. NEW BUSINESS ENTER-
PRISE WILL BE STIMULATED, AND ENCOURAGEMENT WILL BE
GIVEN TO AN EXPANSION OF SMALL AND MEDIUM-SIZED
COMPANIES. DURING THE COMING AUTUMN, IT IS THE IN-
TENTION OF THE GOVERNMENT TO SUBMIT TO THE RIKSDAG
A BILL PROPOSING MEASURES TO THAT END. THE BILL WILL
ALSO PROPOSE CONSIDERABLE TAX RELIEF FOR SMALL BUSINESS,
INCLUDING GOVERNMENT SUPPORT OF THE INTEREST PAYABLE
ON LONG-TERM EXPORT CREDITS.
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